

**STATE OF NORTH DAKOTA
BISMARCK, NORTH DAKOTA**

**REPORT OF EXAMINATION
OF
SAFECARD SERVICES INSURANCE COMPANY
BISMARCK, NORTH DAKOTA**

**AS OF
DECEMBER 31, 2002**

STATE OF NORTH DAKOTA
DEPARTMENT OF INSURANCE

I, the undersigned, Commissioner of Insurance of the State of North Dakota do hereby certify that I have compared the annexed copy of the Report of Examination of the

SafeCard Services Insurance Company

Bismarck, North Dakota

as of December 31, 2002, with the original on file in this Department and that the same is a correct transcript therefrom and of the whole of said original.

IN WITNESS WHEREOF, I have hereunto
set my hand and affixed my official seal at my
office in the City of Bismarck, this _____ day of
_____, 2004.

Jim Poolman
Commissioner of Insurance

TABLE OF CONTENTS

| | |
|---|----|
| SCOPE OF EXAMINATION | 1 |
| HISTORY | 2 |
| General | 2 |
| Capital Stock..... | 3 |
| Dividends to Stockholders | 3 |
| MANAGEMENT AND CONTROL | 3 |
| Stockholders | 3 |
| Board of Directors..... | 3 |
| Officers | 4 |
| Conflict of Interest..... | 4 |
| Corporate Records | 4 |
| Stockholder and Board of Directors Meetings | 4 |
| AFFILIATED COMPANIES | 6 |
| Cendant Corporation | 6 |
| Trilegiant Corporation | 6 |
| Intercompany Services | 7 |
| FIDELITY BOND AND OTHER INSURANCE..... | 7 |
| STATUTORY DEPOSITS | 7 |
| INSURANCE PRODUCTS AND RELATED PRACTICES | 7 |
| Policy Forms and Underwriting..... | 7 |
| Territory and Plan of Operation | 9 |
| REINSURANCE | 10 |
| ACCOUNTS AND RECORDS | 10 |
| FINANCIAL STATEMENTS | 11 |
| COMMENTS TO THE FINANCIAL STATEMENTS | 15 |
| Bonds..... | 15 |
| Cash – Short Term Investments | 15 |
| Interest Income Due and Accrued | 15 |
| Other Expenses and Taxes, Licenses and Fees | 15 |
| CONCLUSION | 16 |
| COMMENTS AND RECOMMENDATIONS | 17 |

Bismarck, North Dakota
December 18, 2003

Honorable Alfred W. Gross
Chair, Financial Condition Committee, NAIC
Commissioner, Bureau of Insurance
Commonwealth of Virginia
P.O. Box 1157
Richmond, Virginia 23218

Honorable Sally McCarty
Secretary, Midwestern Zone
Commissioner of Insurance
Indiana Department of Insurance
311 West Washington Street, Suite 300
Indianapolis, Indiana 46204-2787

Honorable Jim Poolman
Vice President, NAIC
Commissioner of Insurance
North Dakota Department of Insurance
600 East Boulevard
Bismarck, ND 58505-0320

Dear Commissioners:

Pursuant to your instructions and statutory requirements, a financial examination has been made of the books, records and financial condition of

**SafeCard Services Insurance Company
Bismarck, North Dakota**

and the report thereon is respectfully submitted. SafeCard Services Insurance Company, hereinafter referred to as the "Company" was last examined as of December 31, 1995, by the North Dakota Insurance Department.

SCOPE OF EXAMINATION

This examination was a financial condition examination conducted in accordance with N.D. Cent. Code § 26.1-03-19.3 and observed guidelines and procedures contained in the NAIC *Financial Condition Examiners Handbook*. The examination was conducted to determine the Company's financial condition, its compliance with statutes and to review the corporate affairs and insurance operations. This statutory examination covers the period from January 1, 1996, to and including December 31, 2002, including any material transactions and/or events occurring subsequent to the examination date and noted during the course of this statutory examination.

An examiner from the North Dakota Insurance Department conducted this examination.

All recommendations made in the prior report of statutory examination have been adequately addressed by the Company with the following exceptions:

| <u>Recommendation</u> | <u>Action by the Company</u> |
|--|---|
| It is recommended that the Company establish and implement a procedure for disclosing, on an annual basis, potential conflicts of interest of its officers, directors and key employees. | The company has not implemented a conflict of interest policy and does not require disclosure of potential conflicts of interest by its officers, directors and key employees. |
| It is recommended that the Company correct the violations of its Bylaws and that it comply with the investment authorization provision of N.D. Cent. Code § 26.1-05-18. | The Company has not adhered to the Bylaw provision regarding the date of the annual stockholder meeting and Board meeting. It is not in compliance with the investment authorization provision. |
| It is recommended that the Company properly disclose all holding company affiliations and transactions on Schedule Y of the Annual Statement. | The Company did not always disclose all holding company affiliations and transactions on Schedule Y of the Annual Statement. |
| It is recommended that the Company submit unlisted securities for valuation by the Securities Valuation Office as required by N.D. Cent. Code § 26.1-03-02.1. | The Company has not submitted unlisted securities for valuation by the Securities Valuation Office. |
| It is recommended that the Company's claim registers be properly labeled in the Company's name and include the date claims were incurred. | The claim register maintained by affiliate SafeCard Services, Inc. does not reflect the Company's name and does not include the incurred date of the claims. |

HISTORY

General

The Company was incorporated on December 5, 1986, pursuant to the North Dakota Business Corporation Act, N.D. Cent. Code Chapter 10-19.1, and N.D. Cent. Code Chapter 26.1-05. The Company is authorized to transact accident and health, burglary and theft, credit card multi-peril, prepaid legal services, fidelity and surety, and inland marine insurance in North Dakota.

The Company was a wholly-owned subsidiary of SafeCard Services, Inc. ("SSI") until 2001. SSI ownership was traded publicly until it was acquired by the Ideon Group, Inc. in 1995. In 1996, CUC International acquired Ideon Group, Inc. Cendant Corporation, created through a merger of CUC International and HFS Incorporated, acquired ownership of SSI in December 1997. Effective July 2, 2001, Trilegiant Corporation, a nonpublic company, became the Company's direct parent pursuant to an Outsourcing Agreement between Cendant Corporation, Cendant Membership Services Holding Subsidiary, Inc., Cendant Membership Services, Inc., and Trilegiant Corporation. Cendant Corporation continues as the ultimate controlling person through its indirect ownership of 53.6% of Trilegiant stock.

Capital Stock

The corporation is authorized to operate on the stock plan. The aggregate number of shares which the corporation has authority to issue is 5,000 shares of single class (common), with a par value of \$100 per share. All of the authorized shares were outstanding at December 31, 2002, and were owned by Trilegiant Corporation, a Delaware corporation.

Dividends to Stockholders

During the period under examination, the following dividends were paid to the sole stockholder:

1999 - \$2,000,000

2002 - \$1,000,000

MANAGEMENT AND CONTROL

Stockholders

The Company, as defined in its Bylaws, is owned by the sole stockholder, Trilegiant Corporation, Cheyenne, Wyoming, who holds 100% of the Company's 5,000 authorized and issued shares of common stock.

The annual meeting of the stockholders shall be held on the first Thursday in the month of March in each year.

Board of Directors

The Bylaws provide that the Board of Directors shall be three who shall hold office until the next annual meeting of stockholders and until their successor shall have been elected and qualified. A regular meeting of the Board shall be held immediately after the annual meeting of the shareholders.

Directors serving at December 31, 2002, were as follows:

| <u>Name and Address</u> | <u>Business Affiliations</u> |
|---------------------------------------|--|
| John W. Chidsey III Parsippany, NJ | Chairman & CEO of Diversified Services Division Cendant Corporation |
| Peter G. McGonagle Fairfield, CT | Senior Executive Vice President, General Counsel & Secretary – Trilegiant Corporation |
| David P. Vanderscoff Bismarck, ND | Vice President – SafeCard Services Insurance Co Management Consultant |

Officers

The Bylaws provide that the elected officers of the Company shall be a President, two Vice Presidents, a Treasurer, and a Secretary. The offices of President, Secretary, and Treasurer may be held by the same person.

Officers serving at December 31, 2002 were as follows:

| <u>Officer</u> | <u>Title</u> |
|----------------------|---|
| Nathaniel J. Lipman | President |
| Lawrence M. Lehan | Vice President and Secretary |
| Robert G. Rooney | Executive Vice President, CFO and Treasurer |
| Peter G. McGonagle | Senior Executive Vice President |
| David P. Vanderscoff | Vice President |

Conflict of Interest

The Company does not maintain a conflict of interest policy or an established procedure for disclosure of any material interest or affiliations.

It is again recommended that the Company establish and implement a procedure for disclosing, on an annual basis, potential conflicts of interest of its officers, directors, and key employees.

Corporate Records

The following amendment to the Bylaws was adopted by resolution of the sole stockholder dated November 1, 1998:

- Article IV, Section 2, requiring that the number of directors constituting the Board of Directors shall consist of not less than one member nor more than 15 members, the exact number of which shall initially be fixed by the Incorporator and thereafter from time to time by the Shareholder(s).

Stockholder and Board of Directors Meetings

In lieu of meetings, stockholder and Board actions were taken by unanimous written consent and resolution. Written consent and resolutions by the sole stockholder were noted for each year under examination except for 1997. Written consent and resolutions by the Board of Directors were noted for each year under examination except for 2001.

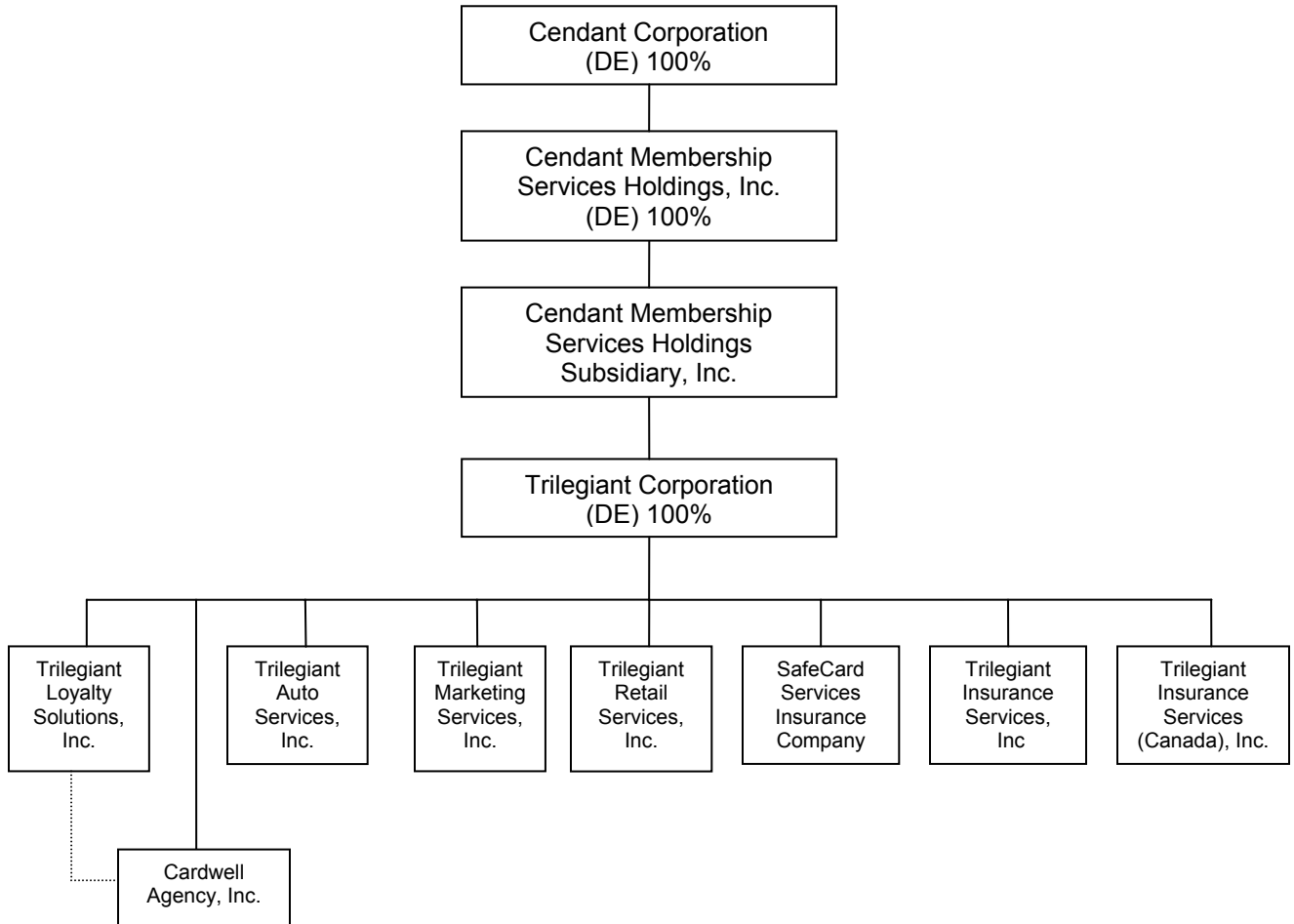
In reviewing the Company's compliance with its Articles, Bylaws and the statutory reporting requirements, the examiner noted the following exceptions:

- The annual meetings of the stockholder and the Board of Directors were not held on the date specified in the Bylaws.
- The Bylaw amendment, as adopted in 1998, was not filed with the North Dakota Insurance Department and the Company gave an incorrect response to General Interrogatory #23 in its 1998 Annual Statement stating that it did not amend the Bylaws during 1998.
- Investments made by the Company during the period under review were not authorized by the Board of Directors as required by N.D. Cent. Code § 26.1-05-18 and N.D. Admin. Code § 45-03-12-05.

It is recommended that the annual meetings of the stockholder and the Board of Directors be held on the date specified in the Bylaws. It is recommended that Bylaw amendments be filed with the North Dakota Insurance Department and properly disclosed in General Interrogatory #23 of the Annual Statement. It is again recommended that the Company comply with the investment authorization provisions of N.D. Cent. Code § 26.1-05-18 and N.D. Admin. Code § 45-03-12-05.

AFFILIATED COMPANIES

The Company is a wholly-owned subsidiary of Trilegiant Corporation, a Delaware corporation. The holding company structure as of December 31, 2002, is presented in the following organizational chart:



Cendant Corporation

Cendant Corporation, a publicly traded Delaware company, provides travel, real estate, vehicle, and financial services on a world-wide basis through various subsidiaries and affiliated entities.

Trilegiant Corporation

Trilegiant is a non-public entity, owned by employee investors who hold approximately 46% aggregate voting securities (no individual owns 10% or more) and Cendant Corporation who owns approximately 54% of voting securities through its indirect, wholly owned subsidiary Cendant Membership Services Holdings Subsidiary, Inc. ("CMS").

Trilegiant was formed in June 2001 to assume the operation of membership and incentive based clubs and programs of CMS. Trilegiant offers membership services to consumers including individual memberships for shopping, travel, auto, credit reporting, credit card protection and other membership clubs. The membership programs are marketed primarily through contractual arrangements with banks and other financial institutions, retailers, oil companies, on-line networks, and other organizations with large numbers of individual customers. Trilegiant's credit card protection services include incidental insurance coverages which are underwritten by the Company.

Intercompany Services

The Company has no employees; all officers, except one, are also officers of Trilegiant or other Trilegiant affiliates. Trilegiant performs various administrative services for the Company, including asset management, accounting services, data processing, claims processing, and financial statement preparation. The Company has no written agreement with Trilegiant for these services and is not charged for the services.

FIDELITY BOND AND OTHER INSURANCE

At December 31, 2002, the Company is a named insured on a commercial crime policy issued to Trilegiant providing employee dishonesty blanket coverage with an aggregate limit of \$10,000,000. The coverage meets the minimum suggested in the NAIC's Financial Examiners Handbook.

The Company was also covered under insurance policies issued to Trilegiant Corporation and its subsidiaries covering primary and excess directors & officers liability and commercial general liability.

STATUTORY DEPOSITS

Deposits maintained by or through regulatory agencies are as follows:

| <u>Location</u> | <u>Type of Asset</u> | <u>Statement Value</u> | <u>Market Value</u> |
|------------------------|-----------------------------|-------------------------------|----------------------------|
| North Dakota | Bonds | \$1,107,637 | \$1,158,490 |
| North Dakota | Certificate of Deposit | 400,000 | 400,000 |

INSURANCE PRODUCTS AND RELATED PRACTICES

Policy Forms and Underwriting

The Company's sole policyholder at December 31, 2002, is its parent, Trilegiant Corporation, who acquired ownership of the policies listed below with its acquisition of the assets and operations of SafeCard Services, Inc. on July 1, 2001. The named insured on the policies continues to be SafeCard Services, Inc. **It is recommended that the Company reissue the master policies to Trilegiant Corporation as the named insured.**

1. Cardgard Master Policy – approved January 28, 1987

Coverage – Loss resulting from any loss of theft including burglary or robbery of credit or debit cards.

Limit of liability is to a maximum of:

\$50 per credit card

\$500 per debit card

\$5,000 per subscriber for any one loss

\$25,000 per subscriber in any three-year period

Wallet and locksmith endorsement approved January 19, 1993:

Covers the cost of replacing subscriber's wallet or purse if lost or stolen in conjunction with the loss or theft of cards. Maximum coverage is \$50.

Covers the cost of having a locksmith re-key subscriber's house and/or car keys. Maximum coverage is \$75.

2. Home Protection Master Policy – approved January 28, 1987

Coverage – Accidental death during robbery of subscriber's home

Limit of liability - \$10,000 each covered person; \$30,000 aggregate

Coverage – Burglary or robbery of subscriber's safe deposit box

Limit of liability - \$50,000 each occurrence; \$250,000 for all claims from one event

Coverage – Replacement cost on subscriber's personal property

limit of liability - \$10,000 subject to a \$1,000 deductible

Coverage – Homeowners deductible for subscriber's home

Limit of liability - \$250 each occurrence subject to a maximum of \$1,000 per calendar year

Coverage – Personal property loss due to burglary and robbery of subscriber's motel or hotel room

Limit of liability - \$5,000 each occurrence with a \$250 deductible per loss

3. Legal Services Master Policy – approved April 13, 1987

Coverage – Cost of bail, release of lien, and similar bonds in covered civil suits in which subscriber is the defendant

limit of liability - \$1,000 for all bonds subject to a maximum of \$5,000 per year

Coverage – Loss of wages while attending the trial of an covered civil matter

Limit of liability - \$100 per day with a maximum of \$5,000 per trial per year

Coverage – Legal expense in defense of IRS matter

Limit of liability - \$500 per day with a maximum of \$5,000 per trial per year

Coverage – Attorney’s fees in trials covered by this policy
Limit of liability - \$500 per day, with a maximum of \$5,000 per trial per year

4. SafeCard Master Policy – approved January 28, 1987

Coverage – Common carrier accidental death
Limit of liability - \$10,000 per person; \$30,000 per family; \$250,000 for all in one accident

Coverage – Common carrier limited baggage
Limit of liability - \$500 per person

Coverage – Rental car deductible
Limit of liability - \$2,500 per accident, with a \$250 deductible for each accident

Coverage – Credit card unemployment
Limit of liability – Minimum monthly payment on each covered card, not to exceed \$100 a month on any card, for up to 6 payments in any 12 months

Coverage – Limit property on credit card balance
Limit of liability – Outstanding balance on each covered card, subject to following limits:
 \$1,000 each covered card
 \$5,000 limit on all cards
 \$250 deductible each loss

Coverage – Trip interruption
Limit of liability - \$200 per day maximum up to three days

5. Safecheck Master Policy – approved August 30, 1990

Coverage – Loss resulting from the loss or theft of a check
Limit of liability – Maximum of \$10,000 for all claims arising from one incident

Territory and Plan of Operation

Trilegiant markets various products and services to individuals through client proprietary lists (i.e., banks, financial institutions, retailers, oil companies and internet service providers) for a membership fee. Trilegiant serviced approximately 21.1 million memberships as of December 31, 2002. Credit and charge card customers are offered membership services including the following major product lines:

Hot-Line Credit Card Protection – These services enable consumers to register all of their credit and debit cards. If the cards are lost or stolen, the card holder contacts Trilegiant to report the problem. Additionally, Hot-Line members receive services including insurance liability coverage for fraudulent card charges, emergency cash advances, and change of address service.

Fee Card – This product offers customers of credit card issuers the opportunity to upgrade to a premium or gold card. A gold card entitles the holder to a variety of special benefits.

CreditLine Credit Monitoring Service – This service helps subscribers to obtain and understand personal credit reports.

To enhance its service programs, Trilegiant offers insurance coverage underwritten by the Company. Under this arrangement, the Company issues group master policies to its parent and all subscribers to a particular service program become members of the group by receiving a certificate of participation in the group master policy. Group members are located in all 50 states and receive notice of participation in the group.

The Company is licensed only in the state of North Dakota.

REINSURANCE

The Company did not cede any business during the period under review.

ACCOUNTS AND RECORDS

The Company's accounting procedures, internal controls and transaction cycles were reviewed during the course of the examination and a trial balance as of December 31, 2002, was obtained and traced to the appropriate schedules of the Company's 2002 Annual Statement. The Company's ledgers are maintained electronically. Revenues and expenses were test checked to the extent deemed necessary.

The Company was granted a waiver by the North Dakota Insurance Department from the filing requirements for the annual audited financial statement and actuarial opinion during the period under examination. An RBC report for 2002 was filed as requested; the RBC report requirement was waived for the previous years under examination.

The following items relating to the Company's records and its preparation of the Annual Statement were noted during this examination:

Bank account signatories – The Company has not updated the list of authorized signatories on its bank accounts to remove individuals that no longer have check signing authority and to add individuals that currently have check signing authority. **It is recommended that the Company correct the bank's listing of authorized signatories for its bank accounts.**

Claims registers - Claims received from group policy participants are entered into two claim registers: one register is maintained as an Access database file at the Cheyenne, Wyoming, offices of the Company's parent and the second register is maintained at the Company's office in Bismarck, North Dakota. The examiner noted various discrepancies between the two registers along with missing and inaccurate data. As previously noted in the prior exam report, the Cheyenne claims register is not labeled as the Company's register and it does not include the date that the claims were incurred. **It is recommended that procedures be implemented to assure that all claims are recorded into the Access database file and to reconcile the two claims registers on no less than a quarterly basis. It is again recommended that each register be properly labeled and include the incurred date of the claim.**

Schedule Y, Part 1 - The Company has not disclosed the identity and interrelationships of the parent, all affiliated insurers, and the ultimate controlling person of the holding company group in Schedule Y, Part 1, as required by the Annual Statement Instructions. A non-insurer affiliate must be included on Schedule Y, Part 1, if its total assets equal or exceed one-half of one percent of the Company's assets, even though it does not have any activities reported in Schedule Y, Part 2. Additionally, any person (entity or natural person) deemed to be an ultimate controlling person must be included in the organization chart shown in Schedule Y, Part 1.

Schedule Y, Part 2 - The Company did not report the shareholder dividends paid to its parent on Schedule Y, Part 2, as required by the Annual Statement Instructions.

Notes to Financial Statement – the Notes to Financial Statements to the 2001 and 2002 Annual Statement did not contain all of the information required by *NAIC Annual Statement Instructions*.

It is recommended the Company prepare its statutory annual statement in strict compliance with the *NAIC Annual Statement Instructions*.

FINANCIAL STATEMENTS

The financial statements of the Company are presented on the following pages in the sequence listed below:

Statement of Assets, Liabilities, Surplus and Other Funds, December 31, 2002
Underwriting and Investment Exhibit, Year 2002
Reconciliation of Capital and Surplus, January 1, 1996 through December 31, 2002

SafeCard Services Insurance Company
Statement of Assets, Liabilities, Surplus, and Other Funds
As of December 31, 2002

| | Assets | Nonadmitted Assets | Net Admitted Assets |
|---------------------------------------|------------------|-------------------------------|--------------------------------|
| Bonds | \$ 1,107,637 | | \$ 1,107,637 |
| Cash | 771,059 | | 771,059 |
| Short-Term Investments | 0 | | 0 |
| Interest Income Due and Accrued | 13,843 | | 13,843 |
| TOTALS | \$ 1,892,179 | | \$ 1,892,179 |
| | | | |
| Losses | | | \$ 93,851 |
| Loss Adjustment Expenses | | | 0 |
| Other Expenses | | | 0 |
| Taxes, Licenses, and Fees | | | 0 |
| Unearned Premiums | | | 133,333 |
| Total Liabilities | | | \$ 227,184 |
| Common Capital Stock | | \$ 500,000 | |
| Gross Paid In and Contributed Surplus | | 500,000 | |
| Unassigned Funds (Surplus) | | 664,995 | |
| Surplus as Regards Policyholders | | | 1,664,995 |
| Total | | | \$1,892,179 |

**SafeCard Services Insurance Company
Underwriting and Investment Exhibit
for the Year Ended December 31, 2002**

UNDERWRITING INCOME

| | | |
|--------------------------------------|------------|------------|
| Premiums Earned | | \$ 160,000 |
| Deductions: | | |
| Losses Incurred | \$ (5,523) | |
| Loss Expenses Incurred | 0 | |
| Other Underwriting Expenses Incurred | 17,665 | |
| | | |
| Total Underwriting Deductions | | 12,142 |
| | | |
| Net Underwriting Gain or (Loss) | | \$ 147,858 |

INVESTMENT INCOME

| | | |
|--------------------------------------|-----------|--------|
| Net Investment Income Earned | \$ 70,952 | |
| Net Realized Capital Gains or Losses | 0 | |
| | | |
| Net Investment Gain or (Loss) | | 70,952 |

OTHER INCOME

| | | |
|--|--|------------|
| Total Other Income | | 0 |
| | | |
| Net Income Before Federal Income Taxes | | \$ 218,810 |
| Federal Income Taxes Incurred | | 0 |
| | | |
| Net Income | | \$ 218,810 |
| | | |

SafeCard Services Insurance Company
Reconciliation of Capital and Surplus Accounts
January 1, 1996, Through December 31, 2002

| | <u>Year Ended December 31</u> | | | | | | |
|---|--------------------------------------|-------------|-------------|---------------|-------------|-------------|-------------|
| | 2002 | 2001 | 2000 | 1999 | 1998 | 1997 | 1996 |
| Capital and Surplus, December 31, Previous Year | \$2,446,185 | \$2,187,668 | \$1,970,994 | \$3,730,030 | \$3,444,400 | \$3,132,034 | \$2,873,300 |
| Net Income | \$218,810 | \$258,517 | \$216,674 | \$240,964 | \$285,630 | \$312,366 | \$258,734 |
| Dividends to Stockholders | (1,000,000) | | | (2,000,000) | | | |
| Net Change in Capital and Surplus for the Year | \$(781,190) | \$258,517 | \$216,674 | \$(1,759,036) | \$285,630 | \$312,366 | \$258,734 |
| Capital and Surplus, December 31, Current Year | \$1,664,995 | \$2,446,185 | \$2,187,668 | \$1,970,994 | \$3,730,030 | \$3,444,400 | \$3,132,034 |

COMMENTS TO THE FINANCIAL STATEMENTS

Bonds

At December 31, 2002, all bonds were investment grade and were held by the Bank of North Dakota under a custodial agreement.

Three bond issues had not been submitted for valuation with the Securities Valuation Office (SVO) of the NAIC as required by N.D. Cent. Code § 26.1-03-02.1 and the Company's SVO Compliance Certification did not properly disclose the "Z" suffixed securities (as reported on Schedule D) which had not been submitted to the SVO. The bond issues were not listed in the SVO database and were not exempted from SVO valuation. **It is again recommended that the Company submit unlisted securities for valuation to the SVO as required by N.D. Cent. Code § 26.1-03-02.1 and that the SVO Compliance Certification be prepared in conformity with the *Annual Statement Instructions*.**

Cash – Short Term Investments

The Company misclassified a three-month certificate of deposit issued by the Bank of North Dakota as a Short Term Investment rather than Cash. The NAIC *Accounting Practices and Procedures Manual*, SSAP No. 2, and the *Annual Statement Instructions* specify that certificates of deposit with maturity dates of one year or less from the acquisition date are defined as Cash and should be reported on Schedule E. **It is recommended that the Company report certificates of deposit with a maturity date of one year or less from the acquisition date on Schedule E of the Annual Statement.**

Interest Income Due and Accrued

The Company did not accrue interest income due on a certificate of deposit as of December 31, 2002. **It is recommended that the Company report investment income that is due and accrued at year-end but received in the following year.**

Other Expenses and Taxes, Licenses and Fees

The Company did not accrue for a claims processing fee and for state premiums taxes that were incurred in 2002 but paid in the following year. **It is recommended that the Company accrue for all expenses which are incurred before year-end but paid in the following year.**

CONCLUSION

The financial condition of the Company, as of December 31, 2002, as determined by this examination is summarized as follows:

| | | |
|--------------------------------------|------------------|--------------------|
| Admitted Assets | | <u>\$1,892,179</u> |
| Total Liabilities | \$ 227,184 | |
| Surplus as Regards Policyholders | <u>1,665,995</u> | |
| Liabilities, Surplus and Other Funds | | <u>\$1,892,179</u> |

No change was made in the amounts reported by the Company in its 2002 annual statement since the net difference detected by this examination was not considered material.

Since the last examination conducted as of December 31, 1995, the Company's admitted assets have decreased \$1,861,157, its total liabilities have decreased \$655,467, and its surplus as regards policyholders has decreased \$1,204,690.

The courteous cooperation extended by the officers and employees of the Company during the course of the examination is gratefully acknowledged.

In addition to the undersigned, Mike Andring, ACAS, of the North Dakota Insurance Department participated in this examination.

Respectfully submitted,

Rhoda M. Sautner, CPA
Examiner
North Dakota Insurance Department

COMMENTS AND RECOMMENDATIONS

- Page 4 It is again recommended that the Company establish and implement a procedure for disclosing, on an annual basis, potential conflicts of interest of its officers, directors and key employees.
- Page 5 It is recommended that the annual meetings of the stockholder and the Board of Directors be held on the date specified in the Bylaws.
- Page 5 It is recommended that Bylaw amendments be filed with the North Dakota Insurance Department and properly disclosed in General Interrogatory #23 of the Annual Statement.
- Page 5 It is again recommended that the Company comply with the investment authorization provisions of N.D. Cent. Code § 26.1-05-18 and N.D. Admin. Code § 45-03-12-05.
- Page 7 It is recommended that the Company reissue the master policies to Trilegiant Corporation as the named insured.
- Page 10 It is recommended that the Company correct the bank's listing of authorized signatories for its bank accounts.
- Page 10 It is recommended that procedures be implemented to assure that all claims are recorded into the Access database file and to reconcile the two claims registers on no less than a quarterly basis. It is again recommended that each register be properly labeled and include the incurred date of the claim.
- Page 11 It is recommended the Company prepare its statutory annual statement in strict compliance with the *NAIC Annual Statement Instructions*.
- Page 15 It is again recommended that the Company submit unlisted securities for valuation to the SVO as required by N.D. Cent. Code § 26.1-03-02.1 and that the SVO Compliance Certification be prepared in conformity with the *Annual Statement Instructions*.
- Page 15 It is recommended that the Company report certificates of deposit with a maturity date of one year or less from the acquisition date on Schedule E of the Annual Statement.
- Page 15 It is recommended that the Company report investment income that is due and accrued at year-end but received in the following year.
- Page 15 It is recommended that the Company accrue for all expenses which are incurred before year-end but paid in the following year.